



WASHINGTON STATE LEGISLATURE  
**Office of the State Actuary**

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TO: Steve Nelsen, Executive Director  
LEOFF 2 Retirement Board

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Office of the State Actuary

CC: Matt Smith, FCA, EA, MAAA, State Actuary  
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RE: **Joint and Survivor Benefits For LEOFF 2**

This memo presents the cost of removing the actuarial equivalent reduction factors applicable to joint and survivor optional payment forms for LEOFF 2 benefits. We prepared cost estimates for the removal of the reduction factor for joint and 50, 67, and 100 percent survivor benefits. A summary of the costs is shown below:

<b>Cost Summary</b>		
<b>Survivor Benefits:</b>	<b>Total Rate Increase</b>	<b>Total 2007-2009 Cost (in millions, employer plus member)</b>
50 %	3.28%	\$81.2
67 %	4.36%	\$108.0
100 %	6.54%	\$162.0

**Members Impacted**

Offering optional joint and survivor payment forms, without actuarial reduction, would impact the active members and beneficiaries who qualify for joint and survivor benefits, as well as future entrants who qualify. For a typical member with a final average salary of \$57,513, retiring at age 57 with 16 years of service, who elects a joint and 100 percent survivor payment form for a spouse of age 53, the annual retirement benefit would increase from \$15,643 to \$18,404.

## **Analysis of Results**

Joint and survivor payment forms allow beneficiaries to continue receiving all or a portion of the member's retirement benefits should the member predecease the beneficiary. Currently members may opt for no survivor benefit or choose one of the options (50 percent, 67 percent, or 100 percent). Based on the chosen option and the age difference between member and beneficiary, an actuarial reduction is applied to the benefit amount, so there is no cost to the plan for the selection of the payment option. Offering free joint and survivor payment forms would eliminate the reduction associated with that option and increase plan costs.

Removing the actuarial reduction applicable to the joint and 50 percent survivor payment form would increase the present value of fully projected benefits (PVFPB) by \$398 million. Contribution rates for current members would increase by a total of 3.28 percent; members would see an increase of 1.64 percent, local employer rates would increase 0.99 percent, and the state contribution rate would increase 0.65 percent.

Removing the actuarial reduction applicable to the joint and 67 percent survivor payment form would increase the PVFPB by \$530 million. Contribution rates for current members would increase a total of 4.36 percent; 2.18 percent for members, 1.31 percent for local employers, and 0.87 percent for the state.

Removing the actuarial reduction applicable to the joint and 100 percent survivor payment form would increase fully projected liabilities by \$796 million. Contribution rates for current members would increase 6.54 percent in total; 3.27 percent for members, 1.96 percent for employers, and 1.31 percent for the state.

## **Assumptions and Methods**

The results are based on 2004 valuation data and use the same actuarial assumptions and methods as disclosed in the 2004 Actuarial Valuation report. This proposed change was applied to current active members only. Benefits currently in pay status and current terminated vested benefits were excluded from this proposal. The costs shown would be higher if combined with other benefit improvements.

It was assumed that members who were eligible for unreduced joint and survivor benefits would not opt for a less valuable form of benefit. For example, a retiree eligible for an unreduced joint and 100 percent survivor benefit would not elect to take a joint and 50 percent survivor benefit.

## Actuarial Determinations

The proposed benefit improvements would increase the liabilities and contribution rates as shown below:

<i>(Dollars in Millions)</i>		Survivor Benefits:	Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b>		50%	\$4,800	\$398	\$5,198
(The Value of the Total Commitment to all Current Members)		67%	\$4,800	\$530	\$5,330
		100%	\$4,800	\$796	\$5,596
<b>Unfunded Liability (PBO)</b> (The Value of the Total		50%	(\$426)	\$201	(\$225)
Commitment to all Current Members Attributable to Past		67%	(\$426)	\$268	(\$158)
Service)		100%	(\$426)	\$402	(\$24)

### Increase in Contribution Rates\*: (Effective 9/1/2006)

	Survivor Benefits:	50%	67%	100%
<b>Current Members</b>				
Employee		1.64%	2.18%	3.27%
Employer		0.99%	1.31%	1.96%
State		0.65%	0.87%	1.31%
Total - Current Members		3.28%	4.36%	6.54%
<b>New Entrants**</b>				
Employee		0.69%	0.92%	1.38%
Employer		0.41%	0.55%	0.83%
State		0.28%	0.37%	0.55%
Total - New Entrants		1.38%	1.84%	2.76%

\*For LEOFF 2, the employer pays 60 percent of the Employer/State cost and the State pays 40 percent.

\*\*Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.

## Fiscal Budget Determinations

The proposal would result in higher contribution rates for all LEOFF 2 members and employers. As a result of the changes in the required contribution rates, the increase in funding expenditures is projected to be:

<b>Costs (in Millions):</b>	<b>Survivor Benefits: 50%</b>	<b>Survivor Benefits: 67%</b>	<b>Survivor Benefits: 100%</b>
<b>2006-2007</b>			
<b>State:</b>			
General Fund	\$6.4	\$8.5	\$12.8
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
<b>Total State</b>	<b>\$6.4</b>	<b>\$8.5</b>	<b>\$12.8</b>
Local Government	\$9.7	\$12.8	\$19.2
Total Employer	\$16.1	\$21.3	\$32.0
Total Employee	\$16.1	\$21.3	\$32.0
<b>2007-2009</b>			
<b>State:</b>			
General Fund	\$16.1	\$21.6	\$32.4
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
<b>Total State</b>	<b>\$16.1</b>	<b>\$21.6</b>	<b>\$32.4</b>
Local Government	\$24.5	\$32.4	\$48.6
Total Employer	\$40.6	\$54.0	\$81.0
Total Employee	\$40.6	\$54.0	\$81.0
<b>2006-2031</b>			
<b>State:</b>			
General Fund	\$269.2	\$359.5	\$540.5
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
<b>Total State</b>	<b>\$269.2</b>	<b>\$359.5</b>	<b>\$540.5</b>
Local Government	\$407.3	\$540.5	\$809.5
Total Employer	\$676.5	\$900.0	\$1,350.0
Total Employee	\$676.5	\$900.3	\$1,350.0